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**Changes of Ownership and Identities
of Malaysian Banks:
Ethnicity, State and Globalization**

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Changes of Ownership and Identities of Malaysian Banks: Ethnicity, State and Globalization

This article analyses the changes of ownership and identities of Malaysia's locally-owned banks in a series of merger and acquisitions (M&A) within national border and beyond. The article begins with description of the establishments of local banks in Malaya and later Malaysia which were mainly founded and owned by ethnic Chinese. The author then examines how the internal factors (protracted affirmative action policy and the consolidations of local banks by the state) and external factors (forces of globalization) had changed Malaysia's local banks from mainly Chinese-owned to state-owned and from medium-size domestically-based to large-scale regionally-based banking groups. The author shows how the internal factors have been shaping the ownership and identity of Malaysian banks, which aim to facilitate the formation of a Malay entrepreneurial class. The author also show how the external factors have been shaping the strategies and size of the Malaysian banking groups to become huge regional banks to compete with foreign banks for sizable and value deals in the region, in the context of greater liberalization of the financial sector.

Keywords: Affirmative action policy, bank consolidation, liberalization of financial sector, Chinese, Bumiputera, expansion of local banks

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Introduction

Most domestic banks established in Malaysia were mainly owned and identified with the Chinese Community. Chinese family-owned banks developed and flourished in the 1960s and play significant roles in funding the development of Chinese businesses and for nation building. Out of the 23 commercial banks in Malaysia, 14 were established by the Malaysian Chinese (Cheah 2011). Until the 1970s, 'all of Malaysia's local banks (with two or three exceptions) were synonymous with Chinese business' (Hara 1991: 350). During these periods, the presence of many small banks, predominantly Chinese family-owned, and other

retail enterprises gave an impression that the Chinese was dominating the Malaysian economy. In actual sense, as of 1970, Chinese ownership of the Malaysian banking sector was 24.3 per cent, which was far higher than the Malays (3.3%) but much less than the foreigners (52.2%) (Malaysia 1973: 83).

It was widely argued that the uneven distribution of wealth among different ethnic groups in Malaysia, largely between ethnic Chinese and ethnic Malays was blamed as the principal factor that led to the communal riot in May 1969. Following this tragedy, a redistributive policy, dubbed the New Economic Policy (NEP) was introduced with two prong strategies, to eliminate poverty and to restructure the Malaysian society in a timeframe of two decades (1971-1990). The second prong of the NEP's spirit has great and lasting impacts on Malaysia's banking sector, especially in the context of increased economic globalization which see rapid changes of ownership and identities in Malaysia's local banks.

This article analyses the changes of ownership and identities of Malaysia's locally-owned banks from mainly Chinese-owned to state-owned and from medium-size domestically-based to large-scale regionally-based banking groups. These changes come about through a series of merger and acquisitions (M&A) within national border and beyond. It examines how the internal and external factors had contributed to the M&A of Malaysia's local banks. For internal factors, the state's bank consolidation policies are strategies aim at facilitating the formation of a Malay entrepreneurial class or a Bumiputera Commercial and Industrial Community (BCIC). As for external factors, the state's bank consolidation policies are strategies to create large Malaysian banking groups to compete with foreign banks in the context of greater liberalization in the domestic financial sector and beyond.

Changes in Ownership and Identities of Malaysia's Local Banks

This section provides information of the establishments, ownership, identities and functions of Malaysia's local banks and shows the evolution of these banks in terms of ownership and identities.

Early local banks established in Malaya were generally Chinese clan-based. These banks were established to meet the needs of small Chinese traders. The earliest bank incorporated in Malaya was Kwong Yik (Selangor) Bank (1913) which founded by prominent Cantonese businessmen aims to help, mainly the Cantonese community (Tan 1961: 455). In 1920, Batu Pahat Bank Ltd was established in Batu Pahat, Johor by the Hokkien. In 1935, Ban Hin Lee Bank Ltd (BHL) was established by a prominent Hokkien, the late Yeap Chor Ee in Penang (Tan 1953). BHL originally focused on serving local businessmen in their trading and merchant activities. In the 1960's, BHL branched into real estate and house financing throughout Malaysia and Singapore. The Bank of Malaya that emerged out of mining activities in Ipoh closed down in 1930 due to capital inefficiency and collapse of tin prices brought by the Great Depression (Tan 1961, Yen 2008). Banking was one of the manifestations of Chinese dialect identity and competition in economic life. They were an Indian-owned bank, Oriental Bank of Malaya, established in 1936. The main function of this bank was limited to handling remittances from the members of the Ceylonese community working in Malaya. They was also a Malay-owned bank, Malay National Banking Corporation, established in 1947 that undertook hire purchase business in sewing machines, motor vehicles, sarongs and musical instruments. But it failed in 1952 due to lack of banking experience of its directors and staff and its small capital (Lim 1967).

In Sarawak, a few Chinese banks were established. All of these banks were traditional in their style of management and conservative in operation, being concerned with meeting the needs of local business groups rather than getting involved in international trading,

particularly with the West (Tan 1982). For instant, Bian Chiang Bank was established in Kuching by a Hokkien prominent businessman, Wee Kheng Chiang in 1924. In its early days, the Bian Chiang Bank's¹ activities were mainly related to business financing and the issuance of bills of exchange to the Chinese business community in Sarawak. Kwong Lee Bank, a Cantonese-owned bank started operation in 1905 in Kuching, Sarawak under the name of *Kwong Lee Mortgage & Remittance Company*. The company granted loans against the security of export commodities such as pepper, rubber and other indigenous products. It also provided the services of remitting money of overseas Chinese to their families in Southeast region of China. It later incorporated as Kwong Lee Bank Ltd in 1934. Another bank, Wah Tat Bank was established in 1955 was owned by two most prominent Hokkien families. Whilst, Hock Hua Bank established in 1952 represented the interest of the Foochow people that emerged as a joint venture of several Foochow entrepreneurs and a large number of small investors to provide loans to the Foochow farmers and traders that were refused by the Kwong Lee Bank and Wah Tat Bank (Ngu 2012). These largely dialect-based banks were small and accounted for only a third of the total deposits in Malaya and Borneo in 1955; the rest was held by the British owned Chartered Bank, Hong Kong and Shanghai Bank, and the Mercantile Bank (Supriyah 1984: 31). These family-owned, Sarawak-based banks are conservative in their management and reluctant to expand beyond the state for fear of dilution of their interests (Chen 2013) that eventually restrict their growth and size then became targets of acquisitions. Table 1 below provides a summary of the establishments of these early banks in Malaya.

Table 1: Early Banks (Locally incorporated)

Name of Bank	Places and year of incorporation	Ethnic/dialect affiliation
Kwong Yik (Selangor) Bank	Kuala Lumpur, 1913	Chinese-Cantonese
Bank of Malaya*	Ipoh, 1920	Chinese-Cantonese
Batu Pahat Bank	Batu Pahat, 1920	Chinese-Hokkien
Kwong Lee Bank**	Kuching, Sarawak, 1934 (1905)	Chinese-Cantonese
Bian Chiang Bank***	Kuching, Sarawak, 1956 (1924)	Chinese-Hokkien
Ban Hin Lee Bank	Penang, 1935	Chinese-Hokkien
Oriental Bank of Malaya	Kuala Lumpur, 1936	Indian
Malay National Banking Corporation Ltd****	Kuala Lumpur, 1947	Malay
Hock Hua Bank	Sibu, Sarawak, 1951	Chinese-Foochow
Wah Tat Bank	Sibu, Sarawak, 1955	Chinese-Hokkien

* Bank of Malaya operated from 1920-1930.

** Started as Kwong Lee Mortgage and Remittance Company in 1905.

*** On 24 December 1956 Bian Chinag Bank was incorporated under the name of Bian Chiang Bank Ltd.

**** Malay National Bank operated from 1947-1952.

Source: Compiled from Tan (1953), Lim (1967), Lee (1990) and Cheah (2011).

The 1960s was an era of proliferation of family or Chinese-owned banks but also witnessed the emergence of ‘national banks’, which include shareholders of different ethnic group in Chinese-controlled banks and the establishment of a state-owned banks. Chinese businessmen who made their fortunes in the rubber and tin industries diversified into the financial sector and facilitate the industrial and property development activities (Tan 1982:159). At that time, with a Chinese Finance Minister, it was not difficult for the Chinese to obtain a banking license. Several Chinese banks were incorporated such as the United Malayan Banking Corporation (1960), Malayan Banking (1960), Hock Hua Bank (1961) in Sabah, Southern Bank (1962), Development and Commercial Banking (1965), Kong Ming Bank (1965) and Public Bank (1966) (Hara 1991; Tan 1982). As the banking industry expended in the 1960s, they were some merger and acquisitions. In 1964, OCBC Bank of Singapore acquired a 52% majority stake in Kwong Lee Bank.

As economic development moved on a faster pace and with greater intensity, and on a much broader economic base, dialect, clan and other traditional Chinese characteristics began to give way in the 1960s. During this period, spatial and occupational mobility became more

common, and greater integration occurred among Chinese through inter-marriage between different dialect/clan groups marked the beginning of the diminishing influence of dialect/clan relationship.

Two 'national' and 'multi-ethnic' banks emerged in the 1960s; there were Malayan Banking Bhd. (MBB) and United Malayan Banking Corporation (UMBC). MBB was founded by Khoo Teik Puat and UMBC by Chang Min Thien. However, these banks did not have the baggage and liabilities of the old breed banks. Within the Chinese community, they were not dialect-based, and were not identified with any particular clans. They were considered 'multi-ethnic' banks in terms of ownership as well as the customer base. A government-owned bank, the Bank Bumiputra Malaysia Bhd. (BBMB) was incorporated in 1965 as the first Malay commercial bank. Given the weak economic position of the Malays and that Chinese-owned banks were exclusive, the establishment of BBMB was to break the Chinese dominance in the banking industry and also aims to increase capital loan facility to Bumiputera individuals and companies (Snodgrass 1980: 53) as ways to advance a Bumiputera entrepreneurial class.

To achieve the nation's wealth retributive policy, the NEP has systematically shaping the country's banking sector. Malaysia's banking policies and reform of the banking sector has been an integral part of the NEP, which is a vibrant strategy to achieve the NEP's second prong, to restructure the Malaysian societies, in terms of wealth distribution.

To further achieve the NEP's social-engineering of a Malay entrepreneurial class or a BCIC, Bank Negara, the central bank had in December 1966, seized opportunity and took controlled of MBB when it was faced with management problems and in danger of collapse. MBB was eventually put under government protection (Ranjit 1987), wherein, the central bank had used its discretionary power to take control of a bank. MBB is remained state-owned until today. MBB was Malaysia's largest bank and the Malaysian Chinese had not

only lost control of the largest local bank but also the identity of the bank identical to the Chinese community. Today, MBB or Maybank doesn't carry any Chinese identity. In the present day, within the country, Malaysians perceived Maybank, the nation's largest bank as state-owned or government-link company (GLC) and a Malay-controlled bank.

Following the central bank's takeover of MBB, the Bumiputera capital ownership, including trust agencies collectively owned 60.0 per cent of overall equity share in the domestic banking and finance companies by 1980. This figure had increased to 69.0 per cent in June 1985 (Malaysia 1986: 110). In a study by Fujio Hara (1991: 353) shows that Bumiputera ownership had increased to 77.0 per cent for the whole Malaysian banking industry by early 1982. The Chinese had lost for permanently, many of Chinese-controlled banks and banking identity synonymous to the Chinese community.

The 1970s and late 1980s debt crisis and financial sector liberalization pushed the Malaysian banking institutions through a consolidation process to meet the requirements of the central bank which aimed to improve the banking industry's competitiveness and encouraging the emergence of more professional management through the dilution of individual ownership. The central bank's view was that small Malaysia banks would not be able to survive once the financial market was liberalized following the commitment under the General Agreement on Trade in Service (GATS) in the WTO (Jayasankaran 1997). This periods mark the beginning of the disappearance of some Chinese dialect banks.

As of 1990, only eight of the 14 Chinese-controlled banks were left, six Chinese-controlled banks had been taken over by the state or for Bumiputera interest (Hara 1991). Chinese ownership of Malaysia's banking sector has declined from 24.3 percent in 1970 to 10.2 percent in 2004 (Malaysia 1973: 83; Malaysia 2006: 338, 357). Simultaneously, more and larger state-owned and Malay-controlled banks are expanding their present in the domestic markets and beyond.

Strong loan growth prior to 1997 had led to high loan exposure of the banking system. As a result of the property market crash and substantial capital outflows, nonperforming loans (NPLs) in the banking system began to escalate, resulting in the deterioration in quality of the asset portfolio of the banking institutions. Banking institutions became reluctant to lend, coupled with higher interest rates, this resulted in a credit squeeze in financing for individuals and businesses. Against the backdrop of the Asian financial crisis in 1997, many Asian countries have undergone massive reforms in their financial sector. This external financial shock affected Indonesia, Thailand, Malaysia, and the Philippines. Each country adopted a push for local bank consolidation. To enhance competitiveness, the Malaysian government pressed on with liberalization by getting local banking groups to consolidate among themselves, rationalize common functions and operations across institutions, and outsource non-core activities. Among the four countries, Malaysia took the strongest state-guided approach and entirely reformed the domestic banking sector in the post Asian financial crisis year. To defend the affirmative action or redistributive policy and external shocks, the state adopted a gradualist approach towards financial liberalization (BNM 1999). Beck and Levine (2004) argue, when global trade has become more integrated, financial sector becomes more globalized and exposed to external shocks, states will likely to adopt proactive policies in the financial sector that could generate growth through mobilizing of resources towards more efficient use. For Malaysia, Cook (2008: 67) contends that before, during and after the Asian financial crisis, the Malaysian government took a very concerted defensive approach to the forces of banking sector globalization, state and state-affiliated banks remained the government's favour. Cook argues that Malaysia's statist-nationalist banking policy remain steadfast and was the most resilient to pressure of globalization, and protected until the present day. Such policy has resulted in the increased size of state-owned banks through M&A, and decreased in ethnic and family-owned small and medium-size banks.

The end result is the formation of ten anchor banks from a total of 54 financial institutions as at end of 2001. The aim then was to streamline the banking industry to withstand competition from large foreign banks in the process of liberalizing the domestic financial sector. In this context, small Chinese-controlled banks were absorbed into bigger banks and vanished from the corporate scene. The ten anchor banks are Malayan Banking, Bumiputra-Commerce Bank, Public Bank, RHB Bank, Arab-Malaysian Bank, EON Bank, Multi-Purpose Bank, Hong Leong Bank, Affin Bank, and Southern Bank. Under the government-initiated banking consolidation plan, on 1 July 2000 resulted in an entire reform in the Malaysian banking sector. Cook (2008) noted that since the late 1960s until the present, the government had been very firm with its state-guided approach and had systematically reformed the domestic banking sector. As of today, they are only two Chinese-controlled or family-owned banks left in Malaysia namely, Public Bank and Hong Leong Bank.

Nonetheless, Randhawa (2011: 410) contends that Malaysia's banking reform currently consists of nine domestic anchor banks (after the acquisition of Southern Bank by Bumiputra-Commerce Bank in 2006) are consider too many which are not competitive enough compared to foreign banks. Randhawa further argues that the merger of commercial banks with investment banks and finance companies did not achieve the desired economies of scope and scale. In mid-2014, an exercise of forming Malaysia's mega bank and reduce the current nine to eight anchor banks was inline with Randhawa's argument. The 2014 attempt led by CIMB Group Holdings Bhd. (CIMB), Malaysia's second-biggest bank to merge with RHB Capital Bhd. and Malaysia Building Society Bhd. (MBSB) to create Malaysia's largest bank by assets of RM629 billion would surpass Malaysia's largest lender, Malayan Banking Bhd.'s RM583.4 billion by assets (*Bloomberg* 10 October 2014). This new development indicates a trend toward fewer and larger banks in Malaysia. It also means that Chinese or

family-owned banks will further reduce from the current two to one and is likely completely vanished from Malaysia's banking sector. On the other hand, given the history of CIMB (controlled by UMNO politicians) and RHB (controlled by well-connected businessmen), that struggle for control over Malaysia's financial sector, political observers perceived "this consolidation will tightly entwine the interests of political and business elites in the banking sector" (*KiniBiz* 22 July 2014).

The 1980s and 1990s external shocks clearly show the increased of global forces and growing pressure on Malaysia's financial sector reform which is shaping Malaysia's banks ownership and identities. These two external shocks revealed that the government has a strong hand that favoured state and Bumiputera interests in the domestic banking sector. The state's policy was seen as driven by the market forces of globalization but had never lose sight of the NEP's redistributive policy. However, the 2008-09 global economic crisis witnessed a different form and scale of acquisitions by Malaysian banks, which were driven by market forces and they were mostly cross-border acquisitions. These took place before, during and throughout the protracted crisis periods. During these periods, the acquisitions by Malaysian banks involved not only banks in the ASEAN region but also Western investment banks in the Asia Pacific region when the West was going through a difficult time. Asian lenders, include Malaysian banks perceived the 2008 global economic crisis as a global economic power shifts to the region, and they seize opportunities to capture strategic and valuable deals.

The following section of the article provides analysis of Malaysia's five largest banks that describe through M&A and the state's banking consolidation policies have shape the ownership and identities of Malaysia's local banks. Three of the state-owned and Bumiputera-controlled banks have deep Chinese root and tradition in terms of strong banking foundation. These three state-owned banks are growing in size and expanded their presence in ASEAN

markets and beyond, which is becoming the ‘too big to fail banks’. The two Chinese-owned local banks are also growing in size and increased their cross-border banking activities through the acquisitions of foreign banks in connected markets but are not aggressive compared to state-owned banks. However, shareholdings of Chinese-ownership in the remainaing two Chinese-controlled banks have been reduced significantly. With the government’s policy to promote modern domestic commercial banking, the remnant of these two Chinese-controlled banks are the last targets of acquisitions by the state in the context of greater globalization of the domestic financial sector. Cheah (2011) noted that Chinese-owned banks had emerged as the new breed of ‘national’ banks.

Malayan Banking Group

Malayan Banking Berhad or Maybank is Malaysia’s largest, among Asia’s leading financial services groups, and the fourth largest banking group in Southeast Asia by assets (RM650.4 billion as of December 2013). It has relatively shorter Chinese root and tradition compared to the CIMB Group and RHB Group, which will be elaborate below. Maybank was founded by Khoo Teck Puat in 1960 shortly after he left the Oversea-Chinese Banking Corporation (OCBC) group in Singapore. Khoo was a prominent businessman, his father owned stakes in the OCBC. Khoo controlled the Goodwood group of hotels and held significant stakes in the London-based Standard Chartered Bank. He established Maybank with 80 former OCBC staff and within six years, Maybank had opened more than 100 branches in Malaya, Singapore, London and Hong Kong. In 1963 Khoo as managing director and chief executive of Maybank financed his property investments, which include Goodwood Park Hotel for S\$4.8 million. On this impropriety, Khoo lost his position as managing director of Maybank. In December 1969, the Malaysian Central Bank then effectively took control of Maybank (Ranjit 1987).

In the course of the post Asian financial crisis and state directed banking consolidation, Pacific Bank and Phileo-Allied Bank (PAB) were merged with Maybank in 2001. Pacific Bank Berhad was incorporated as a wholly owned subsidiary of the Overseas Chinese Banking Corporation in 1963 after OCBC² acquired the Bank of Batu Pahat Limited which was established in 1920. PAB was founded in 1995 by Tong Kooi Ong and has shareholders of different ethnic group with Avenue Assets Berhad (formerly known as Phileo Land Berhad) owned 18.52 per cent of PAB. Avenue Assets Berhad is a diversified conglomerate controlled by Mokhzani Mahathir, son of former Malaysian Prime Minister Mahathir Mohamad (*Phileo-Allied Group Annual Report 2000: 95; FinanceAsia 14 July 2000*). Some analysts view that Tong secured a banking licence to establish PAB because he was linked to Anwar Ibrahim, then finance minister. The forced selling of PAB was in the context of after Anwar's fall from power, and the banking consolidation initiative in the immediate post-Asian financial crisis. Tong was the first to develop online banking through the PAB. Recently, Tong in his own blog said that:

“In 1995 when Phileo-Allied Bank introduced online banking and stockbroking, the Kuala Lumpur Stock Exchange tried to stop this innovation by going to the courts. The reason was to protect their market share and commission rates. And after the successful launch of OneAccount in 1996, the first current account that pays fixed deposit interest rates, Bank Negara stopped the launch of the OneCorporate account that would have given companies the same benefit. A few large banks protested. In the name of consolidation of the banking sector, an innovative, technologically superior and profitable bank was forced to be sold in 2001” (Tong 2013).

Since the central bank took control of Maybank in 1966, it remains a state-owned bank until today. As of end 2013 majority Bumiputera ownership in Maybank managed by Permodalan Nasional Berhad (PNB) alone was 46.05 per cent. PNB is a government investment fund established in 1978 as a principal vehicle of the government to achieve the NEP's objective of societal restructuring by promoting share ownership in the corporate sector among the Bumiputera. PNB is today Malaysia's largest fund management company by assets.

Maybank has created for itself a new brand across Asia and beyond. It launched a new brand campaign in 2014 with the theme 'Bridging Worlds in Asia' in the competitive banking landscape in Asia. Maybank was already a regional bank in 1960 when it was established in Malaysia. Today with more than 2,200 offices in 20 countries, it connects many, in terms of financial needs across Asia. The Maybank brand name presence in all 10 countries in ASEAN, the three global financial centres of Hong Kong, London and New York, the two biggest emerging markets of China and India, the Middle East, and other countries.

Maybank has been on an accelerated track of acquisition since the mid-1990s buying stakes in other banks of different regions to stay competitive as the financial sector is increasingly globalized. Maybank has a strong presence in Indonesia, Singapore and the Philippines. Maybank has its presence in Singapore since the year when it was incorporated in 1960. As at December 2013, Maybank's total assets in Singapore were S\$42 billion. In 2011 Maybank strengthens its securities business by acquiring Singapore brokerage Kim Eng Holdings Limited adding a new entity to its Malaysian investment banking operation, Maybank Investment Bank Berhad. The acquisition of Kim Eng gives Maybank an instant access to investment operations in Singapore, Thailand, Vietnam, Indonesia and the Philippines. Maybank perceived Kim Eng as a perfect complement to Maybank' existing strengths in investment banking and the equities market to transform Maybank into a regional

powerhouse (*Financial Times* 6 June 2011). Now the Maybank Kim Eng Group has offices across Southeast Asia, the U.S. and U.K. It has been involved in several high-profile deals in the region.

The Maybank brand entered the Indonesian market since 1995 when it entered a joint-venture with PT Bank Nusa Nasional. Maybank gains greater visibility in Indonesia after its acquisition of PT Bank International Indonesia (BII) from Temasek (Singapore's state-owned investment company) and Kookmin (South Korea's biggest bank) who jointly hold a controlling interest of about 55.6 percent. Subsequently, Maybank owns 97.5% of BII in a deal amounted to USD2.7 billion. The acquisition took place when global bank stocks have plummeted 33 percent in 2008 (*Bloomberg* 30 September 2008). Its presence in the Philippines started in 1997 after it acquired PNB Republic Bank in 1997 and renamed the bank as Maybank Philippines Inc. (MPI). Maybank as a financial group is growing in size, increase its presence in the region and beyond that has some similar development strategies like the CIMB Banking Group and RHB Banking Group which have rapidly expanding their international investment banking operations.

CIMB Bank Group

CIMB Bank Group is Malaysia's second largest bank, the largest Asia Pacific investment bank (exclude Japan), and is the fifth largest banking group in ASEAN. It has thick Chinese heritage in banking that can be traced to the establishments of Bian Chiang Bank (BCB), Ban Hin Lee Bank (BHLB), and Southern Bank.

CIMB also has a Malay root and tradition that can be traced to the establishment of Bank Bumiputera Malaysia Berhad (BBMB). BBMB has a 'Chinese touch'. In its formative years, prominent Chinese businessmen, Robert Kuok and Khoo Kay Peng were appointed directors of BBMB in 1966 to assist the bank (Gomez, 1999: 102). CIMB's early changed of

ownership and identity was when the Wee family who founded BCB sold their 36 per cent stake to UMNO-owned Fleet Group in 1975. Four years later (1979), the Fleet Group completed its acquisition of BCB and led to the formation of Bank of Commerce Bhd and retain the acronym bank name of BCB (Gomez 1990: 36). By the 1980s, BBMB becomes the largest bank in the country in terms of assets and was the first Malaysian bank to have operations in New York, London, Tokyo, Bahrain and Hong Kong.

In October 1999, BBMB recovered from the Asian financial crisis and other financial problems to merge with Bank of Commerce Behad, resulting in the formation of Bumiputra-Commerce Bank (BCB), which was the biggest merger in Malaysia's banking history under the control of Commerce Asset Holdings Berhad (CAHB). In 2005, CAHB announced its decision to create a universal bank by combining its commercial and investment banks. On an aggressive M&A, in March 2006, CIMB launched a hostile takeover of Southern Bank, which was one of the ten anchor banks announced in 1999. Southern Bank is an enlarged Chinese-controlled bank with strong fundamental after it merged with Ban Hin Lee Bank in 2001, in the post-Asian financial crisis banking consolidation process. CIMB Group recognized Southern Bank as an important player in wealth management products, credit cards and SME lending that are Chinese dominant. Southern Bank was the first in the country to set up the MEPS/ATM system used throughout Malaysia today. After enlarging its consumer banking sector, Bumiputra-Commerce Bank was rebranded to its current name, CIMB in 2006. The takeover of Southern Bank added a valued niche player in consumer banking to the Group. The merger combined the extensive resources and reach of Bumiputra-Commerce Bank with the expertise and agility of Southern Bank. The CIMB chief felt that CIMB needed to proceed with the takeover of Southern Bank to compliment the banking franchise it was trying to build. It was a hostile takeover because Southern Bank has been an important ingredient to help effect the turnaround in CIMB's consumer franchise (*The Star* 4

August 2012). From this merger, CIMB formed a regional universal banking group that aims to be 'Southeast Asia's Most Valued Universal Bank' and embarked on a rebranding exercise and unveiled a new logo and a new tagline, 'Forward Banking', reflecting its promise to create value for customers through forward thinking. In other word, CIMB has created for itself a new identity in the ASEAN countries.

In the context of increased liberalization of the banking sector, which size and efficiency matter led the leadership of the CIMB Group to position itself as an ASEAN bank by building its ASEAN franchise. It attempts to emulate the model of 'too big to fail' banks such as the Goldman Sachs and JP Morgan of the United States that have an international investment banking operations. CIMB's expansion strategies are quite similar to that of Malayan Banking and RHB Bank. In 2004, CIMB forms 60:40 joint-venture with the Principal Financial Group of the United States, a NYSE-listed global financial service company and resulted in the formation of CIMB-Principal Asset Management Berhad (CIMB-Principal). CIMB-Principal has regional investment capabilities in Malaysia with regional footprint covering Singapore, Indonesia and Thailand. CIMB was on 'shopping spree' to expand its international investment banking operations. In 2005, it acquired GK Goh Securities Pte Ltd and led to the formation of CIMB-GK Securities Pte Ltd, which strengthening CIMB's international investment banking operations. GK Goh was founded in Singapore in 1979, evolving into a reputable pan-Asian stockbroking franchise with operations in Singapore, Indonesia, Hong Kong, the UK and the US.

CIMB Group flexes its muscles during the 2008 global financial crisis when almost all Western banks of giant size were forced to sell their operations abroad. CIMB Group strengthening its present in Southeast Asia and connect itself to global financial centres and large economies that have linkages with ASEAN. To achieve this aim, CIMB Group acquired a 19.99% stake in the Bank of Yingkou in 2008, adding mainland China to the group's

network. In the same year, CIMB Group created the sixth largest bank in Indonesia after the group merged PT Bank Niaga Tbk with PT Bank Lippo Tbk. The merged bank was rebranded as 'CIMB Niaga' in Indonesia. Also, in 2008 CIMB acquired a 93% stake in BankThai Pcl. That strengthening CIMB Group's universal banking platform across major ASEAN markets and made the Group's retail network the widest in ASEAN. BankThai was rebranded as 'CIMB Thai' and its new brand and logo were unveiled to the public in May 2009 as part of CIMB Thai's transformation into becoming a financial institution that offers innovative products and service to the Thai market. In September 2009, CIMB Group set up retail banking services in Singapore. The retail banking component complements CIMB Group's existing securities, advisory and corporate lending businesses in Singapore. In November 2010, CIMB Group spreads its present in Cambodia. In April 2012, CIMB had purchased some of Royal Bank of Scotland's (RBS) Asian investment banking business in the Asia Pacific for USD142 million. RBS's operations in Asia Pacific markets include Australia, Hong Kong, Indonesia and Thailand. The acquisition aims to make CIMB becoming one of the top three Southeast Asian banks by assets and return on equity. In underwriting capital-market deals for the Asia- Pacific, data indicates that CIMB beat out DBS Group Holdings Ltd. and HSBC Holdings Plc, while RBS trailed at No. 35. Whilst for takeovers, it trumped Morgan Stanley, Credit Suisse Group AG and Goldman Sachs with RBS lagging behind at number 19 (*Bloomberg* 25 June 2012).

The CIMB Group is emerging as a top regional financier for mergers and acquisitions. In late 2012, CIMB provided some of the financing to Overseas Union Enterprise Ltd' (UOE)'s S\$9bil counterbid for Fraser and Neave Ltd.³ The deal marks CIMB Group as the top of the regional M&As league in South-East Asia for 2012. CIMB is also growing its cross-border M&A deals. For instance, it helped to broker a billion-dollar deal which saw private equity firm CVC Capital Partners buying 98 per cent of PT Matahari Department

Store, Indonesia's largest supermarket chain owned by the Lippo Group (*The Star* 20 November 2012). CIMB also involved in the Songkhla-based Sri Trang Agro-Industry PCL and Malaysia Smelting Corp Bhd.'s listing on the Singapore Exchange, and Genting Singapore Plc (GENS)'s S\$1.8 billion (USD1.4 billion) perpetual bond sale in 2012. It also assisted Saudi Arabia-based Islamic Development Bank in selling \$800 million of Shariah-compliant debt last week.

As a state-owned bank, the lender is benefiting from Malaysian companies, especially state-owned companies that are pushing ahead with IPOs even as markets worldwide are affected by Europe's protracted debt crisis. CIMB was principal adviser and managing underwriter for the Malaysian portion of IHH Healthcare Bhd.'s USD2.1bil dual listing on the Kuala Lumpur and Singapore stock exchanges in July 2012. It helped raise USD3.3 billion for Kuala Lumpur-based plantation owner Felda Global Ventures Holdings Bhd., Malaysia's biggest in 2012 IPO after Facebook Inc.'s USD16 billion share sale. IHH Healthcare Bhd., a Malaysian-government controlled company is Asia's largest hospital operator. Felda Global Ventures, also a Malaysian-government controlled company is the world's third largest oil palm plantation operator.

While the CIMB Group is expanding rapidly, its bigger Southeast Asian rivals are also expanding at the same time through acquisitions, seeking to tap growth in the region's fastest-growing emerging markets. CIMB follows the footprints of some large US banks into the regional markets. However, its three-way merger exercise to create Malaysia's largest bank in mid-2014 did not materialize. If the exercise was successful, domestically, the enlarged entity will closely interlace the interests of political and business elites in the banking sector.

RHB Bank Group

The RHB Bank Group is the fourth largest financial group in Malaysia. RHB Bank has the thickest Chinese heritage in finance and banking compared to Maybank and CIMB. RHB Bank started in 1997 from a merger between two Chinese founded banks – Kwong Yik Bank and D&C Bank (Development and Commercial Bank). Kwong Yik Bank was Malaya's first local bank and D&C Bank was founded by H.S. Lee in 1966. Lee was well known entrepreneur and the first Minister of Finance of Malaysia. D&C Bank became the 5th largest Malaysian bank by the late 1980s. In 1982, Maybank increased its share ownership of Kwong Yik Bank from 50.4 per cent to 51.4 per cent (Lee 1987: 328). In 1986 the Lee family surrendered the management of D&C Bank, following Lee's death. In 1990, Abdul Rashid Hussain, a politically well-connected corporate figure bought a majority shareholding of D&C Bank from the Lee family. In 1996, Rashid Hussain acquired a controlling stake in Kwong Yik from Maybank. A year later, in 1997 Rashid merged Kwong Yik Bank and D&C Bank, and formed RHB Bank, making it the country's biggest ever banking merger at that time. RHB Bank Berhad turned out as the third largest integrated financial services group in Malaysia in 1997. RHB Banking Group recognized its founding year as in 1913, which was the founding year of Kwong Yik Bank (Selangor). The group celebrated RHB Bank's 100th anniversary in 2013. Internally, the group has built a diverse and performance-centric culture in its workplace.

RHB Bank can be traced to another Chinese founded bank, the United Malayan Banking Corporation (UMBC). As of 1976, UMBC was Malaysia's third largest bank, ranks after Maybank and Bank Bumiputera. UMBC was the first commercial bank established in independent Malaya in 1960 by a group of businessmen, led by Chang Ming Thien, a prominent figure in the rubber industry in Malaya and Singapore. Pernas (National Corporation), a wholly owned government company, through its growth strategies to

indegenize key economic sectors in the country seized the opportunity to obtain control of UMBC when it suffered the fate encountered by Malayan Banking in 1966. UMBC ran into financial problem in 1976 and led to government intervention due to suspected frauds by the directors who issued loans to companies owned by themselves. The subsequent restructuring of the bank gave even more opportunity for Bumiputera to have bigger share ownership in UMBC. In May 1985 the then Finance Minister, Daim Zainuddin acquired outright control of UMBC and then sold it to Pernas with a lucrative profit in 1986. As of early 1990s, Pernas hold a 85.7 per cent stake in UMBC and suffered massive loans taken to acquire the bank. Following this and the poor returns on this investment forced Pernas to sell UMBC in 1992 to Datuk Keramat Holdings, a Bumiputera company that was without previous banking experience. After that the bank was involved in several financial impropriety, including the disbursement of questionable loans. Sime Darby, a Public listed, but state-controlled conglomerate bought UMBC in 1996 (Searl 1999: 74; Gomez and Jomo 1999: 33-34, 56-59, 193-194). Sime Bank declared a loss of RM1.8 billion during the 1997-98 Asian financial crisis. The troubled Sime Bank was then absorbed by RHB Bank in 1999. The processes of M&A in RHB bank since its incorporation until the acquisition of Sime Bank indicate the preference of the state and power of individual Bumiputera such as Abdul Rashid Hussain that had gained control of a major slice of Malaysia's financial sector within a short period. The post-Asian financial crisis bank consolidation led to the merger of Utama Banking Group (UBG) into the RHB Banking Group. This M&A involved tough negotiations with RHB founder Rashid Hussain sold his entire 23.9 per cent stake to UBG in 2003. Under the UBG group management, RHB went through a volatile period to deal with the group's debt restructuring plans, and it was without top management leadership (*The Edge Malaysia* 16 November 2009).

Since year 2007 RHB Banking Group is controlled by Malaysia's employee provident fund (EPF). The restructured banking group is ambitious to be ASEAN's third largest bank by 2020. RHB Bank Group also has a regional expansion plan like Maybank and CIMB that had just made their big foray into Indonesia during the 2008 global financial crisis. In 2008 RHB Investment acquired a 49 per cent stake in Vietnam Securities Corp. RHB chose to be more cautious of not spending too much. Its strategy was to acquire mid-sized bank such as PT Bank Mestika Dharma in Indonesia in 2009. However, it failed to get approval from the Financial Services Authority of Indonesia.

Just like Maybank and CIMB, the increased competition in the domestic market and the intensification of globalization of the financial sector has pushed RHB Banking Group to take an inorganic approach to expand its investment banking in the fast growing Southeast Asian economies by acquiring OSK Holdings Bhd. (OSK), a stockbroking company, in 2012. This acquisition gives an instant boost to RHB's investment banking operations in Southeast Asian markets such as Malaysia, Indonesia, Thailand, Singapore, Cambodia, Hong Kong and China. This strategy enables the RHB Group to capture a surge in mergers and stock deals in Southeast Asia. This enlarged merged entity increases its ability to compete in Asia with global players such as Goldman Sachs and Morgan Stanley. RHB had grown in size and is ranked seventh in Southeast Asia for underwriting domestic bonds, and 18th for share sales (*Bloomberg* 30 April 2013).

The Remnant of Chinese-controlled Banks in Malaysia

Among other measures, the increased capital requirements by the central bank effectively reduced the number of Chinese-owned banks to just two, namely Public Bank Berhad (PBB) and Hong Leong Bank Berhad (HLBB). As state-owned banks grew in size and expanded in the region, the remaining two Chinese-controlled banks in Malaysia are also expanding to

avoid being target of acquisition as Malaysia's banking policies clearly favoured state-owned banks and Bumiputera interests. Under the protracted affirmative action policy, PBB and HLBB have been able to gain government's favour through well-connected political figures and achieved substantial growth. However, the founders and Chinese-ownership in these two banks have declined over years but are still retaining the management control.

Public Bank Group

The Public Bank Group is the third largest banking group in Malaysia by asset size (RM305.73 billion as at end of 2013). During the NEP period, Public Bank pursued a Bumiputera policy in the bank. Public Bank was the first Malaysian local bank to have a Malay Chairman – Tan Sri Nik Ahmed Kamil, an influential member of United Malay National Organization (UMNO) ruling party (Bowie 2006: 78; Tan 1982: 282). Most non-Bumiputeras regarded the NEP as a disincentive but the founder of Public Bank Berhad (PBB), Teh Hong Peow, recognized its' potential. Public Bank was accordingly granted 'Approved Status' by the Finance Minister for meeting all of the Central Bank's priority lending guideline and for fulfilling the NEP's Bumiputera ownership and employment quotas. The 'Approved Status' also enables PBB to accept government deposits (Gomez 1999: 39; Bowie 2006: 107). As early as 1980, it attained the prescribed goal, reaching a 31.2% equity stake in the bank and constant with the national agenda (Bowie 2006: 210). By abiding to the affirmative action policy, PBB was given licences. By 1990 the bank has 90 bank branches and 78 finance company branches (Bowie 2006: 211, 214, 215).

PBB, a well-managed bank survived the ten critical anchor bank consolidation of the domestic banking system in post 1997/98 Asian financial crisis. It was the least affected among other local banks by the Asian financial crisis and emerged relatively unscathed. Under the ten anchor bank consolidation directive, PBB acquired Hock Hua Bank in 2001.

Public Bank also acquired Sime Merchant Bank in 2000 (Bowie 2006: 218, 266). Today, PBB is the largest non-Governmental linked bank, and the fourth largest (after Malayan Banking, Sime Darby and Tenaga Nasional) company listed on the KLSE in terms of market capitalization. The Public Bank Group has two listed entities on the KLSE, namely Public Bank Berhad and Loanpac Insurance Bhd.

Since the 1990s PBB is already a regional bank. On January 1990, PBB made a significant move to acquire Public Finance Limited, Hong Kong (formerly known as JCG Finance Company Limited) as the banks' first overseas subsidiary. Since early 1992, PBB entered Sri Lanka and Vietnam. Later in mid-1992 it opened a branch in Cambodia. In late 1992 it became Malaysia's first bank to open a branch each in Myanmar and Laos. In June 2006 PBB made another milestone to strengthen its regional ambition after it acquired Hong Kong's Asia Commercial Bank (ABC) for HK4.5 billion in June 2006. ABC was renamed as Public bank (Hong Kong) Limited that has 32 branches with a branch in Shenzhen and representative offices in Shanghai and Shenyang, China. At the domestic front, in 1993 PBB acquired KL Mutual Fund Berhad and renamed it Public Mutual. In July 2006 Public Mutual became a 100 percent-owned subsidiary of PBB. As of 2011, the PBB expanded its regional network to 120 with 83 branches in Hong Kong, 3 branches in China, 23 branches in Cambodia, 7 branches in Vietnam, 3 branches in Laos, a branch in Sri Lanka and 3 representative offices in Shanghai, Shenyang, and Taipei.

The founder's ownership of the bank's equity had dropped from 48 per cent to 40 per cent during 1983-1989, while the Bumiputera share also decreased from 31.5 per cent to 25.9 per cent. Conversely, in the context of the state's relaxation of foreign participation in the domestic financial sector, foreign shareholdings in the bank rapidly increased from 18.5 per cent to 29.8 per cent (Hara 1991: 354). As of end 2013, the founder's total ownership in the bank was further decreased to 24.08 per cent (*Public Bank Annual Report* 2013: 206).

The pro-state and Bumiputera bank policies, and coupled with potential external shocks led PBB to propose a RM5 billion rights issue, the largest by a local financial institution in recent years. This quantum cash call in May 2014 surprised the market. Even more surprising is that the founder and chairman, subscribed his entitlement in full. The size of the fund-raising indicates that the bank is fortifying its capital base beyond its requirement. It raises question on why would the 84-year-old banker commit approximately RM1.2bil of his money to fortify the bank, which has been left to professional managers. According to the value of the bank, analysts calculated that a RM1.2bil capital infusion by the founder will immediately triple its value to RM4bil. The total amount raised has far exceeded the capital requirements under Basel III and the central bank's requirement, which means that the bank is over-capitalized. Some bankers and analysts reason that the founder wants to ensure that he leaves behind Public Bank as his legacy and that the bank need to be over-capitalized to overcome future economic downturn or certain regulatory requirements. The rights issue is aimed at strengthening Public Bank's capital base, in light of the implementation of the Internal Capital Adequacy Assessment Process, or ICAAP, and additional capital ratios imposed by the central bank (*The Star* 3 May 2014) and to avoid any eventualities to be controlled by the central bank in the future.

Hong Leong Bank Group

The Hong Leong Bank Group is Malaysia's fifth largest banking group with RM170.4 billion in total assets which has sales and business centres in Malaysia, Singapore, Hong Kong, Vietnam, Cambodia and China. Hong Leong Bank Berhad (HLBB) has more than a century of heritage in the mortgage and remittance industry since 1905 in Kuching, Sarawak, under the name of Kwong Lee Mortgage and Remittance Company. It was incorporated as Kwong Lee Bank Ltd in 1934. The Lim family who founded the bank maintained their ownership

and management until 1982 when the bank was acquired by a Chinese tycoon, Khoo Kay Peng of the MUI Industry Group in Kuala Lumpur. The bank was renamed Malayan United Bank Berhad in 1983. Subsequently it was renamed MUI Bank Bhd. The Chairman of the bank in the early 1980s was Tunku Osman Tuanku Temenggong Ahmad, a member of the Johore royal family. Due to political reason to grovel himself with UMNO leaders, Khoo realize that he would not be able to expand the bank's operations with increased regulation of the sector. Khoo divested his entire stake in MUI Bank in 1993 to Quek Leng Chan of the Hong Leong Group in Malaysia that has been in the financial services industry since 1968 through Hong Leong Finance Berhad (Gomez 1999: 78, 82, 103, 106, 108). The Hong Leong Group's acquisition of MUI Bank reveal Quek's close link with Anwar Ibrahim, the then Finance Ministry that exempted the takeover "... from complying with Malaysia's banking rules which limit the shareholdings of any individual corporate shareholder of a bank to no more than 20 per cent" (Gomez 1999: 155-156). MUI Bank was rename Hong Leong Bank Berhad in October 1994.

The post-Asian financial crisis' state-led ten anchor bank consolidation ended Wah Tat Bank's operation after it became part of Hong Leong Bank in 2001. Another Chinese-owned bank, Kong Ming Bank founded by the late Ling Beng Sung in Sarawak in 1965, had become part of HLBB after the group acquired EON Bank in 2011. Kong Ming Bank was sold to Edaran Otomobil Nasional (EON), national Proton car distributor in 1992 which marked the birth of EON Bank Berhad (*The Edge Malaysia* 11 January 2010). The acquisition of EON Bank transforms HLBB into a banking group of more than RM170 billion in assets as of December 2013.

The Hong Leong group expended its acquisition abroad by acquiring two Hong Kong banks, the Dao Heng Bank in 1987 and merged with Hang Lung Bank in 1989. In 1992, the group bought another Hong Kong bank, the Overseas Trust Bank. The group also acquired

the Benchmark Bank Plc and renaming it Dao Heng Bank (London) plc. The group sold off its shares in Dao Heng Bank to Singapore's DBS Bank for RM10 billion (Gomez 1999: 154). HLBB's regional expansion continues as it bought a 19.99 per cent (RM877.5 million) stake in a small-sized commercial bank based in Chengdu, China in 2007 (*The Star* 26 October 2007). In the same year, HLBB entered the Vietnam market with a wholly-owned commercial bank operation. In 2013, it began its wholly-owned commercial bank in Cambodia.

Conclusion

The protracted affirmative action policy and the increased globalization of the financial sector had led to the state protectionism of local banks in Malaysia that favoured state-owned banks and Bumiputera interests. At the same time these two forces had also led to several rounds of banking consolidations and transformation of the Malaysian banks ownership and identities. Many Chinese or family-owned banks had been acquired by state-owned banks and Bumiputera interests. The numbers of local banks have been reduced, and small and medium-size domestic banks had grown to become large-scale and regional banking groups that spread their present in East and Southeast Asia.

In the context of ASEAN, a 'multi-local model' has been explored to retain some of the indigenous properties. Cross border acquisitions with new branding create new identities for Malaysia's local banks in an increased connected market activities in the region. The globalization of the financial sector is shaping the identity of Malaysia's small and medium local banks to large, and to certain extent, becoming 'too big to fail' state-owned universal banks with competitive innovation in product development, more broad based business activities, ability to clinch big financial deals, increased capital base, and establishing a regional brand. The 2008 protracted global financial crisis creates a global economic power

shifts to the region which prompted three of Malaysia's largest state-owned banks seize opportunities to capture strategic and valuable deals while some European banks were withdrawing their business operations in the region. This shows the power of the state, in the case of Malaysia, the state is resilient to the pressure of globalization of the financial sector.

All three state-controlled banks, Maybank, CIMB Bank and RHB Bank as discussed in this article adopt similar strategies that acquired strategic stockbroking companies, be it local or foreign companies to expedite their regional presence in investment banking in ASEAN and beyond. However, Chinese-owned banks are very careful with their expansion plan because they can't afford to make any mistakes that may lead to any eventualities of being controlled by the central bank.

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¹ The prominent Wee family who founded Bian Chiang Bank is founding member of the United Overseas Bank (UOB) in Singapore in 1971.

² OCBC was established in 1919 by Chinese Singaporean businessmen in Singapore to facilitate the growing financial needs of the local Chinese community.

³ OUE made the S\$9.08 per share offer, which works out to S\$13.1bil for F&N, countering the S\$8.88 (S\$9bil) a share made by Thai billionaire Charoen Sirivadhanabhakdi of the Pokphand Charoen group who has interests in the food and agribusiness, retail and distribution as well as telecommunication industries.

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